

AR60

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

Endless Energy

1 9 9 7 A N N U A L R E P O R T



Larry Martin, Arne Nielsen, Jon Axford, Don Axford, Byron J. Seaman, Bill Smith.

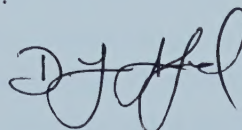
PRESIDENT'S MESSAGE

The oil and gas industry continues to provide a roller coaster ride to the shareholders and management of energy companies. Endless Energy Corp., incorporated in March 1997, already has seen already two giant price swings. The high oil prices of 1997 changed dramatically into lower prices in early 1998. Natural gas prices, however, have strengthened throughout the first quarter of 1998. The first year of the Corporation, nevertheless, has been successfully completed.

Starting as a junior capital pool corporation listed for trading in October 1997, the Company identified its major transaction, arranged the financing in late March 1998, and is now proceeding with its plans for development of various gas prospects. In just a few short months, management has brought the Company to the point where it now owns 15 properties located in Alberta and British Columbia, comprising 76,000 gross acres and 11,500 net acres. Forty percent of the lands are in Alberta and 60% in British Columbia. Commencing April 1, 1998, the Company produces 125 barrels of oil equivalent per day, comprised of 1.2 mmcf/day of gas and 5 bbls/day of oil. Our production benefits in that 92% is in the form of gross overriding royalties with 8% being working interest. This production will provide a good base for future growth.

The Corporation plans a \$400,000 drilling program for the remainder of 1998 with land acquisitions for our internally generated prospects. Our 1998 revenue potential is enhanced by a very substantial drilling program underway on our royalty lands. This will increase our daily production at no cost to our Company.

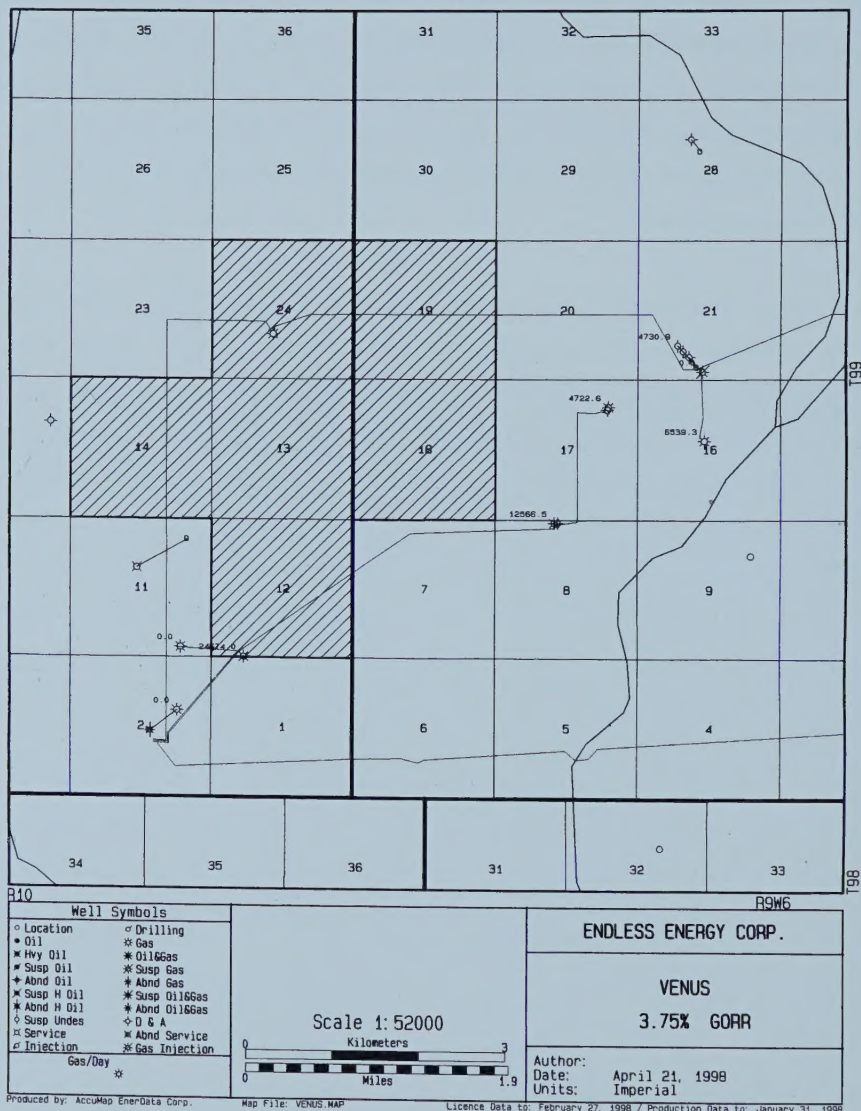
We are grateful for the support of our loyal shareholders and I would like to thank the Board of Directors, officers, our exploration team and associated professionals for their significant and continuing contributions, all of which have been at no cost to the Company. We look forward to future growth and success in 1998 and beyond.



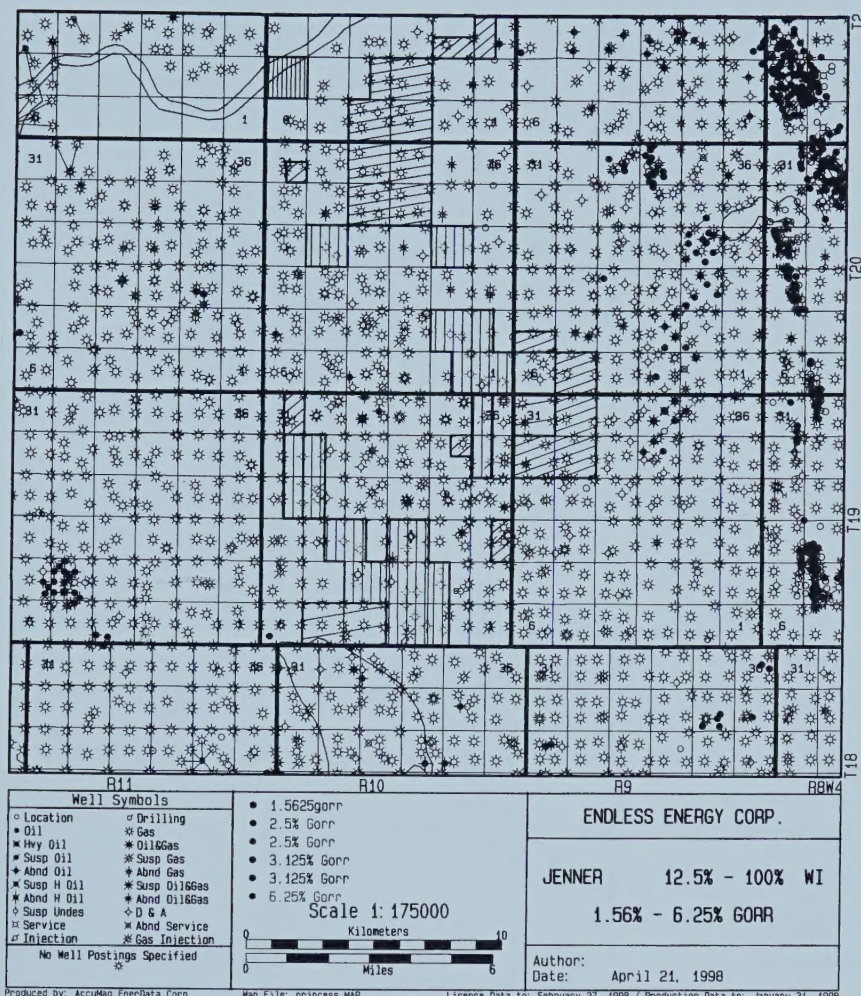
D. Jon Axford

V E N U S

VENUS



This property, located in Northwestern Alberta, comprises 3,840 gross acres and 144 net acres derived from a 3.75% Gross Overriding Royalty. There is one producing well from the Slave Point formation and one suspended well. Both are operated by Poco Petroleums Limited.



The property is located in Southeastern Alberta and contains 111 producing gas wells from the Medicine Hat and Milk River formations. There are 20,800 gross acres and 1,637 net acres that are derived from the Gross Overriding Royalties ranging from 1.56% to 6.25%, and working interests ranging from 12.5% to 100%. Sixty-five percent of the mcf/day is royalty income and the remainder working interest income. The operators are Anderson Exploration Ltd., Crestar Energy Inc., Seagull Energy Canada Ltd. and Endless Energy Corp.

JULY LAKE

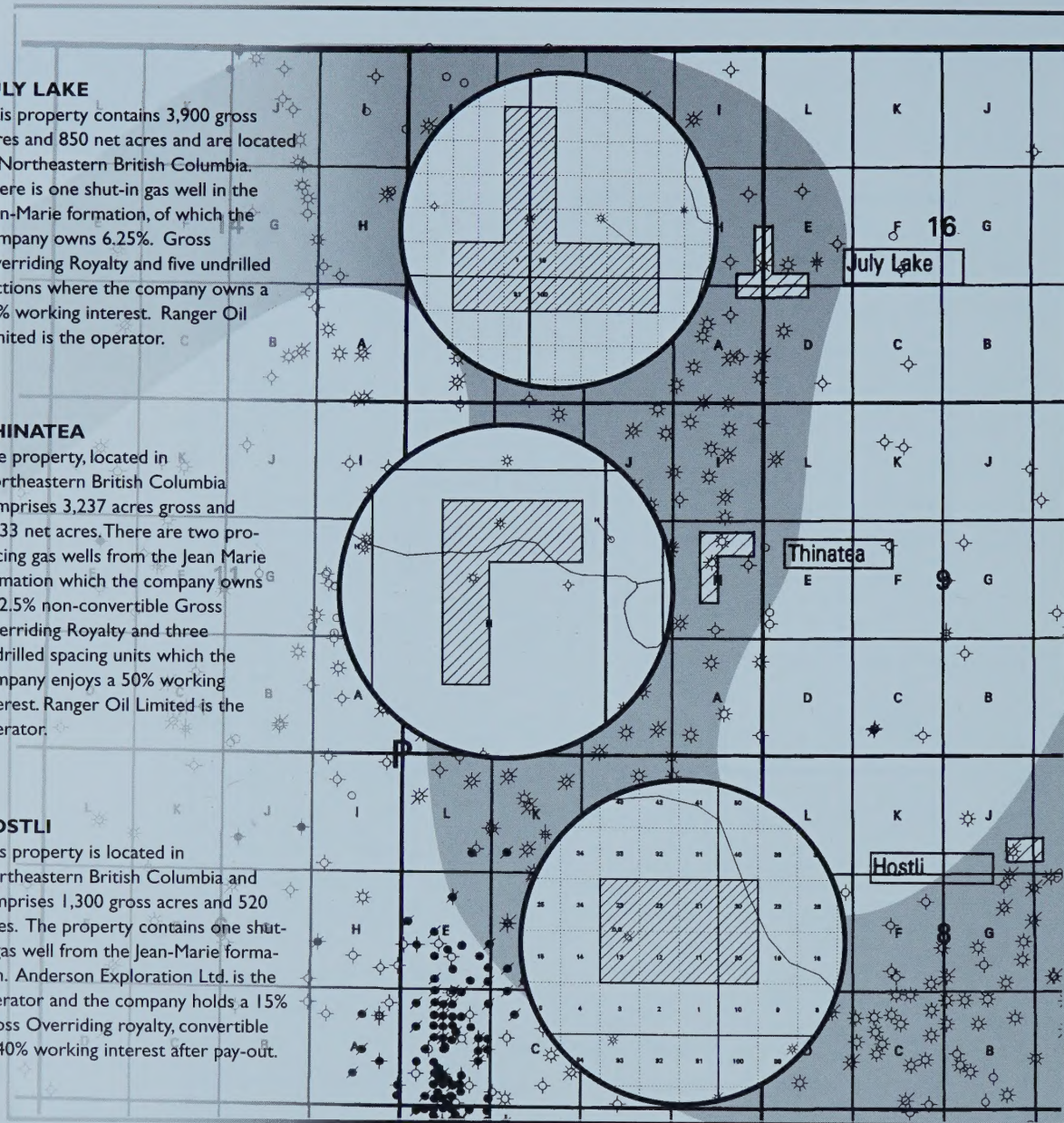
This property contains 3,900 gross acres and 850 net acres and are located in Northeastern British Columbia. There is one shut-in gas well in the Jean-Marie formation, of which the company owns 6.25%. Gross Overriding Royalty and five undrilled sections where the company owns a 25% working interest. Ranger Oil Limited is the operator.

THINATEA

The property, located in Northeastern British Columbia comprises 3,237 acres gross and 1,133 net acres. There are two producing gas wells from the Jean Marie formation which the company owns a 12.5% non-convertible Gross Overriding Royalty and three undrilled spacing units which the company enjoys a 50% working interest. Ranger Oil Limited is the operator.

HOSTLI

This property is located in Northeastern British Columbia and comprises 1,300 gross acres and 520 acres. The property contains one shut-in gas well from the Jean-Marie formation. Anderson Exploration Ltd. is the operator and the company holds a 15% Gross Overriding royalty, convertible to 40% working interest after pay-out.



Map Center on: B-65-F/94-P-10

Well Symbols	
○ Location	□ Drilling
● Oil	☆ Gas
✕ Hvy Oil	✱ Oil&Gas
✱ Susp Oil	✱ Susp Gas
✱ Abnd Oil	✱ Abnd Gas
✱ Susp H Oil	✱ Susp Oil&Gas
✱ Abnd H Oil	✱ Abnd Oil&Gas
◇ Susp Undes	✱ D & A
✱ Service	✱ Abnd Service
✱ Injection	✱ Gas Injection
No Well Postings Specified	
✱	



ENDLESS ENERGY CORP.

HELMET

12.5% Gorr 50% W.I.

Author:
Date:

April 29, 1998

Produced by: AccuMap EnerData Corp. Map File: HELMET.MAP

Licence Data to: April 13, 1998 / Production Data to: February 28, 1998

AUDITOR'S REPORT

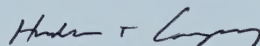
To the Shareholders of
Endless Energy Corp.

We have audited the balance sheet of Endless Energy Corp. as at December 31, 1997, and the statements of earnings and retained earnings and changes in financial position for the seven months then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1997, and the results of its operations and the changes in its financial position for the seven months ended in accordance with generally accepted accounting principles.

Calgary, Alberta
February 11, 1998, except as to
Note 4, which is as of April 3, 1998



Hudson & Company
Chartered Accountants

B A L A N C E

BALANCE

DECEMBER 31, 1997

ASSETS

CURRENT

Cash and short-term deposits	\$ 433,756
Accounts receivable	9,845
Prepaid expenses	<u>10,757</u>
	<u>\$ 454,358</u>

LIABILITIES

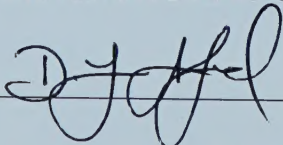
CURRENT

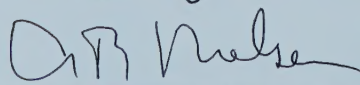
Accounts payable and accrued liabilities	<u>\$ 29,151</u>
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SHAREHOLDERS' EQUITY

SHARE CAPITAL (Note 2)	520,000
RETAINED EARNINGS (DEFICIT)	<u>(94,793)</u>
	<u>425,207</u>
	<u>\$ 454,358</u>

APPROVED ON BEHALF OF THE BOARD:

, Director
D. Jon Axford

, Director
Arne R. Neilsen

STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE SEVEN MONTHS ENDED DECEMBER 31, 1997

REVENUE	\$ 4,539
EXPENSES	
Consulting	\$ 29,373
Filing and stock exchange fees	7,851
Interest and bank charges	84
Office	1,178
Professional fees	35,846
Supplies	5,000
Underwriting fees	20,000
	<u>\$ 99,332</u>
NET EARNINGS (LOSS)	(94,793)
RETAINED EARNINGS, beginning of period	\$ -
RETAINED EARNINGS (DEFICIT), end of period	<u>\$ (94,793)</u>
EARNINGS (LOSS) PER SHARE (Note 3)	<u>\$ (0.028)</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE SEVEN MONTHS ENDED DECEMBER 31, 1997

OPERATING ACTIVITIES	
Net earnings (loss)	\$ (94,793)
Net change in non-cash working capital balances	<u>8,549</u>
	<u>(86,244)</u>
FINANCING ACTIVITY	
Issuance of share capital	<u>520,000</u>
INCREASE IN CASH	433,756
CASH, beginning of period	-
CASH, end of period	<u>\$ 433,756</u>

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1997

1. GENERAL

The company was incorporated under the Business Corporations Act (Alberta) on March 27, 1997. The company is classified as a Junior Capital Pool Corporation as defined in the Alberta Securities Commission Policy 4.11.

2. SHARE CAPITAL

Authorized

Unlimited number of common voting shares

Unlimited number of first preferred shares issuable in series

Issued

4,100,000 common shares	\$	<u>520,000</u>
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3,000,000 common shares will be held in escrow and the first release shall not occur without the written consent of the Executive Director of the Alberta Securities Commission.

The company adopted a common share option plan for its directors, officers and key employees and has granted options to purchase 400,000 common shares at \$0.20 per share. These options expire on May 21, 2002. The common share option is subject to regulatory approval.

3. EARNINGS PER SHARE

Basic earnings (loss) per share have been calculated based upon the weighted average number of shares outstanding during the period of 3,414,666.

4. SUBSEQUENT EVENTS

- a) On January 16, 1998, the company purchased certain oil and gas assets in Alberta and British Columbia and entered into an agreement with another company who agreed to fund 100% of the purchase price of these oil and gas assets. Under the terms of the funding agreement, Endless Energy Corp. agreed to hold 100% of the oil and gas assets in trust for the other company and was granted an option to acquire, on or before March 31, 1998, an approximate 60% divided interest in the oil and gas assets for \$2,208,800. On April 1, 1998, the company exercised this option by issuing common shares, cash and incurring bank debt. The exercise of this option constitutes the company's major transaction as defined in the Alberta Securities Commission Policy 4.11
- b) Subsequent to December 31, 1997, the company raised proceeds of \$616,740 by issuing special warrants.

5. INCOME TAXES

The company has an income tax loss carry-forward of \$48,834 available to apply against future years' taxable income. This loss carry-forward expires in 2004.

The company has excess timing on an accounting basis in the amount of \$94,793. No benefit has been recognized in these financial statements for such amounts.

CORPORATE DIRECTORS AND OFFICERS

DIRECTORS

Donald W. Axford,** D. Jon Axford,** Byron J. Seaman,**
Arne R. Nielsen, Chairman
of the Board

** Member of the Audit Committee

OFFICERS

D. Jon Axford
President and Director

Larry S. Martin
Chief Financial Officer

William H. Smith
Corporate Secretary



CORPORATE INFORMATION

AUDITORS

Hudson & Company
Chartered Accountants
600, 1015 - 4th Street S.W.
Calgary, AB T2R 1J4

BANKERS

Canadian Imperial Bank of Commerce
Main Branch
309 - 8th Avenue S.W.
Calgary, AB T2P 1C6

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company of Canada
6th Floor, Western Gas Tower
530 - 8th Avenue S.W.
Calgary, AB T2P 3S8

Common shares listed under symbol "EEC"
for trading on Alberta Stock Exchange

HEAD OFFICE

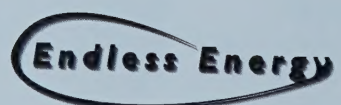
Endless Energy Corporation
2160, 250 - 6th Avenue S.W.
Calgary, AB T2P 3H7
telephone: (403)263-4292
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email: axfordd@cadvision.com

FOR FURTHER INFORMATION CONTACT:

D. Jon Axford
President and Director
telephone: (403)263-4292
facsimile: (403)263-0477
email: axfordd@cadvision.com

ANNUAL GENERAL MEETING

to be held 9 a.m., June 9, 1998 at
R.G. Black Boardroom
3300, 421 - 7th Avenue S.W.
Calgary, AB



2160, 250 - SIXTH AVENUE S.W., CALGARY, AB T2P 3H7